



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

OCTOBER 12, 2006

The regular meeting was called to order by President Carey at 8:30 a.m. Thursday, October 12, 2006. Roll call was taken with all members of the Board being present except. Board members and staff present were:

Carole Carey, President
John Paull, Vice President
Robert Griffith, Member
Jay Klawon, Member
Troy McGee, Member
Elizabeth Nedrow, Member
Terry Smith, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Legal Counsel
Scott Miller, Legal Assistant
Linda Owen, Secretary

OPEN MEETING

Stephen C. Kologi, AMRPE; Nancy Quirino, Great-West Retirement Services; Jim Kembel, MPPA, MACOP, TIAA-CREF; Tom Schneider, MPEA; John W. Northey, Retiree; Mark Johnson, Milliman; Jerry Huggins, ICMA-RC; Kurt Bushnell, Rick Ryan, Chad Nicholson, Dan Cotrell, Matt Norby, Scott Moore, Jack Trethewey, and Ed Regele, members of the Montana State Firemen's Association; and Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Carolyn Miller, Administrative Officer; Rob Virts, Training and Development Specialist; and Katie Linjatje, Disability Claims Examiner, MPERA, joined the meeting.

Public Comment – *No public comment on any subject of interest to the Board not on the agenda.*

MINUTES OF OPEN MEETING

The minutes of the open meeting of September 14, 2006 were presented. Mr. Klawon moved that the minutes of the previous open meeting be approved as amended. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

Actuarial Valuations – Mark Johnson, Consulting Actuary with Milliman, presented the 2006 Actuarial Valuations. He provided the Board with highlights of the valuation findings, focusing on PERS first and providing conclusions on each system. He noted that each system is in a better position than one year ago.

The census review for PERS remained basically the same from 2005 to 2006, except for the non-vested inactive members. Mr. Johnson felt that the choice to go into the Defined Contribution Plan may be comprised of shorter-service people who do not expect to work a whole career.

The Normal Cost Rate is the expected long-term cost of PERS. There were very minor changes from last year. The present value of projected benefits means the actuary takes the census data and projects benefits based on the mortality assumptions of how long people will live. The majority of the liability is based on the current active members. The actuary needs to figure out if the revenue coming in (13.8% of pay) is sufficient to accumulate enough money to pay for all of the benefits for the 53,000 members. Mr. Johnson said he would check the current assets to see if, based upon the funding method, the current contribution can finance the normal cost (12.17%), plus the difference to pay off any shortfall. To calculate the shortfall, the actuary determines where the assets would be if all of the assumptions came out to be true. That calculation is called the actuarial liability. Mr. Johnson takes the value of all benefits and subtracts the value of the future normal cost payments on the current active members, which is 12.17% of pay.

Because of fluctuations in the market, asset smoothing is a standard technique that recognizes gains and losses over a period of four years. If you take the ratio of the assets to the actuarial liability, you get the funded ratio. In 2005, it was 85%; now it is 88%, giving an improved position of the funding status of PERS. The expectations had been to be at 86%, but there was another 2% improvement due to experience gains. If the \$25M had not been contributed by the State, the system would have been at 87% funded instead of the 88%, and the unfunded liability would have been approximately \$26M higher.

The Legislature set up the Plan Choice Rate (PCR) so that those members who elect to go into the Defined Contribution (DC) plan instead of the Defined Benefit (DB) plan will not hurt the funding of the DB plan. There are two pieces to the PCR: 1) Normal Cost changes due to elections. The normal cost rate for the PERS is 12.17%, based upon the benefits that are earned from the time someone enters the system until the time they leave, averaged on all of the people. The legislature wanted to adjust the normal cost for the impact of people electing not to be in the DB plan. The people in the DC plan are making up the difference in order to make the DB plan whole. 2) At the date of the transfers to the DC plan in 2003, there was an unfunded liability in the DB plan. All the people that transferred out of the DB plan, basically, are responsible for financing a portion of the unfunded liability that was there in 2003. They are also making up for the change in the normal cost because their electing out of the DB plan may change the demographics of the DB plan. At this point, it is a fixed amount.

The employer contributions to the DC plans are a total contribution of 6.90%, which consists of:

Member Account – 4.19%
Long-Term Disability – 0.30%
Education Fund – 0.04%
Plan Choice Rate – 2.37%

If a DC plan member becomes disabled, they would receive the same disability benefit they would receive if they were in the DB plan.

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2.37% is the percentage the Legislature originally set up to pay for anti-selection of people not choosing to stay in the DB plan. Mr. Johnson explained how to determine if the 2.37% is still within the parameters set by the legislature. He took the current amortization rate of 2.37%. As of June 2006, the elections out of the DB plan have not affected the demographics enough to change the normal cost. Therefore, there was no adjustment this year for the normal cost. That leaves the 2.37% available to finance the PCR-UAL (\$18,754M). How long will that take based upon the current payroll in the DC plan? Mr. Johnson's calculation was 17.11 years. The maximum schedule in statute is 18.75 years. At this point, the current PCR of 2.37% should be sufficient based upon where we are today and our expectations for the future. The more people that go to the DC plan, the quicker it will be amortized and it could take less than 17 years.

Mr. Smith stated that the number of people choosing the DC plan could have an impact on the normal cost and having the insurance of a longer amortization period available would provide more reasonable expectations that the PCR is going to stay consistent through time. Mr. Johnson responded that the goal ought to be to get rid of this as soon as you possibly can because this is the unfunded liability that was there in 2003. Everybody in the DC plan is being charged, so the longer you go, the more inequitable it probably is by who is paying for it. The \$18M is a fixed cost that, when fully amortized, will be zero. If the DB plan was to have another period of very poor investment returns and the unfunded liability increased, that is not the responsibility of the people in the DC plan and does not affect the PCR. The \$18M unfunded liability is not affected by investment returns; it is fixed at 8% interest. Mr. Johnson stated that the PCR is very complex, but when you look at the big picture, it is doing what it is supposed to be doing.

Mr. Griffith asked if the PCR can be eliminated. Mr. Johnson said no. The unfunded liability can be totally eliminated--paid off. You will have a PCR forever; it is just that you will not need it to pay off the unfunded liability forever. And it may not have to always be 2.37%; it could be lower. Mr. Johnson was not saying it should fluctuate either. The Legislature did not want it to fluctuate; they wanted it to be stable. Mr. Johnson agreed because then people will know how much it is when they make their election and can make their choice based on the modeling they have available.

The actuary explained how he checks to see if the statutory funding rate of 13.80% into PERS is sufficient. He subtracts four basis points (0.04%) for the education fund; and subtracts 12.17% for the normal cost rate of this plan, which gives 1.59% of payroll that is available to finance the shortfall (the system is only 88% funded). The unfunded liability for PERS is \$460.2M, minus \$18.7M that is funded by the DC plan's 2.37% PCR, which leaves \$441.5M to be funded by the 1.59% of payroll in the DB plan. Mr. Johnson stated it does not work; it does not even pay the interest. Therefore, we need to see what would be needed to finance the \$441.5M over 30 years. The answer is that instead of 1.59%, we would need 2.60%, which means the total 30-year funding would be 14.81% instead of 13.80%. The system is now about 1.01% short of meeting a 30-year target, and that includes the \$25M that was put in.

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The system is only 88% funded, so why doesn't it work? Of the total of 13.80%, you need 12.17% plus 0.04% (12.21%) just to pay the ongoing cost of the plan. That leaves only 1.59%. Basically, 88% of contributions coming in are being used to finance normal cost and the education. Only 12%, or 1.59% of covered payroll, is being used to amortize this. Most of the contributions coming in are needed for the ongoing annual cost of the plan. There is not that much left to pay for the amortization. The shortfall as of July 1, 2006 is 1.01%. If it is phased in over two years, it would be approximately .52%, going in on July 1, 2007 and July 1, 2009.

Mr. Johnson summarized that all of the bad investment losses have been recognized, more than 8% has been earned, and there was a slight demographic gain. Looking at those three components, the system is in slightly better shape than it was a year ago. Every one of the eight systems is roughly in that same situation.

Mr. Johnson reviewed the other two systems (GWPORS and SRS) that are not in conformance with the Board's policy to have systems that can finance their unfunded liability over 30 years. The GWPORS has a statutory contribution rate of 19.56%. The normal cost is 18.54%, which leaves approximately 1% of pay available to finance the unfunded liability taking 32 years. To get down to 30 years only takes another 0.04%.

Mr. Johnson stated the SRS poses a bit of a problem in that the contribution rate coming in is 18.78%, but the normal cost is 19.45%. So, the money coming in is not even paying for the benefits that are being earned that year. That means that even if all of the assumptions would turn out to be true, the system is falling farther and farther behind every year. A surplus in this plan would help, but it would not be a "forever" solution because once that surplus was used up, it would still, theoretically, have a normal cost that was higher than what was being contributed. The SRS normal cost rate is 19.45% and is 0.67% of payroll greater than the current statutory rate. There is just not enough there to amortize the system.

In conclusion, Mr. Johnson stated that all of the results are based on the census data, assumptions and methods contained in the 2006 Actuarial Valuations. When making legislative requests, the Board needs to be very clear in pointing out to the legislature that a valuation is a snapshot of a certain period of time and that things change. There can be period of actuarial gains or periods of actuarial losses. This last year was a period of gains, and the gains improved the funded position of the plan such that the shortfall is now less. It could have gone the other way. There is no guarantee.

Mr. Griffith moved that the Board adopt the Actuarial Valuations as of June 30, 2006, as performed by Milliman Consultants and Actuaries. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

The Board thanked Mr. Johnson for the excellent report.

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FY 2007 Budget - Modification – Barb Quinn presented the modified FY 2007 Budget. The only portion of the FY 2007 Budget that required modification and subsequent Board approval was “personal services.” The modification was necessary because of an error in the spreadsheet, which was a result of the number of possible times employees could get an increase in pay and the effect on associated benefits.

Planned increases to personal services for FY2007 are a 4% State increase for most employees on October 1; pay plan increases for employees who have been in their current position 6 months, 2 years, or 5 years; and longevity increases for those employees that reach a 5-year milestone. The overall impact to the budget is approximately \$64,700.

Personal services are 47.88% of the total modified budget, up from 47.03% in the original budget which is an overall increase of 0.85%. However, this is still a 3% decrease in personal services from last year’s budget. The DB plans continue to operate under cap by approximately \$165K, which is down from \$215K in the original budget.

Mr. McGee made a motion to approve the Modified Fiscal Year 2007 Budget. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye. Mr. McGee commented that we need to watch the bottom line of the cap.

Birdseye Volunteer Fire Department – Informal Consideration – The Volunteer Firefighters’ Compensation Act (VFCA) offers retirement benefits for unincorporated rural volunteer fire company firefighters. Each year the qualified departments are sent a turnaround document called an Annual Certificate. The fire chief completes the certificate indicating eligible members – those members who obtained 30 hours of instructional training and served the fire company for the entire fiscal year. Birdseye VFD requested past service credit for members who were not reported on the original Annual Certificates for fiscal years 1995 and 1996.

This is the second time that information has been requested by MPERA of the Birdseye VFD for training records, a letter to the Board for request for review, and notarized Annual Certificates. The original notarized Annual Certificates for FY 1995 and FY1996 were late filed by the Assistant Fire Chief on January 14, 1998. The three people listed on the amended certificate for 1995, and the two people listed on the amended certificate for 1996, were not on the original late filed certificate.

Barb pointed out these are volunteer positions and with the work they do, they do earn those years of service. Mr. McGee noted that this situation with volunteer fire companies continues to happen and he felt there should be a better way to handle it. He would like to see something done with the reporting process to try to eliminate this problem.

John Northey, one of the members requesting past service credit, spoke on behalf of the Birdseye VFD. He explained that Birdseye VFD, had two short-term fire chiefs who did not submit the required forms to the MPERA at that time. However, the volunteer members who were affected were not aware of that discrepancy until one of them checked on retiring and did not have enough

years of service credit. The documentation is maintained by the fire department, but it was the individual compilation that was not submitted. To penalize individuals who had no involvement in this oversight would not be fair. Mr. Northey noted that Ms. Quinn has been very helpful to them to get this situation straightened out.

Mr. McGee felt staff should consider a “check” system for whether a volunteer fire department has responded or not? Ms. Quinn explained the procedure of sending a letter and an annual certificate, which is our turnaround document, to the fire company. They are given instructions and told that the document is to be returned to MPERA by September 1st, which is in law. Some companies respond and some do not. Currently, nothing further is done when companies do not respond. She explained that one of the challenges is that the people in the volunteer fire department are volunteers, so they switch jobs. The fire chief is not always the fire chief, and each person, in turn, may not know the proper procedure for the turnaround document. In our system, we have one address for the fire department and we know the name of the fire chief. We do not keep addresses for all of the individual members. It is the fire chief’s responsibility to provide an update when changes are made. In our current system, we now have a place for a phone number, which we never had in the past. Ms. Quinn stated we could put in some follow-up procedures for fire companies who have not responded. Another possibility is changing the annual certificate due date to a different time of year. Mr. Northey volunteered to work with Ms. Quinn or Ms. Minnehan, from the volunteer side, to see if we can devise some sort of tickler system Mr. McGee referred to.

Mr. Klawon moved to approve the request for past service credit for members who were not reported on the original Annual Certificates for fiscal years 1995 and 1996. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Employee Investment Advisory Council (EIAC) Appointments – Kathy Samson reported there are four appointments to the EIAC which expired July 31, 2006. Three of the four are current members and have expressed an interest in staying on the Advisory Council. The fourth, Angela McDannel, has tendered a letter of resignation as she is semi-retired. Ms. Samson has been in contract with Mr. Edward Dawes, who has expressed interest in serving on the council. Mr. Dawes, a retiree of the Teachers’ Retirement System, a member of the Deferred Compensation Plan, and now works for the Department of Labor and Industry, can bring a wide range of experience to the council. Ms. Samson recommended he replace Angela McDannel.

Mr. McGee made a motion to appoint the following to the EIAC for a 3-year term beginning August 1, 2006 and expiring July 31, 2009:

- Edward Dawes as a state employee representative (new appointment)
- Tom Schneider as labor organization representative (re-appointment)
- Kevin McRae as the university system representative (re-appointment)
- Jim Helgeson as a local government representative (re-appointment)

Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

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Out of State Travel Authorization – Mr. Griffith made a motion to approve the out of state travel authorization for Kathy Samson to attend the Investment Management Institute's 2006 Defined Contribution Forum in Miami, Florida, November 11-14, 2006. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

DC Plans RFP Final Draft – Ms. Nedrow presented the final draft of the DC Plans RFP. Section 3, "Scope of Project," is the general description of what services are expected. Section 4, "Offeror Qualifications/Informational Requirements" is where the RFP responders to provide specific information that ties back to each scope of services in section 3. In section 4, the RFP responder is to demonstrate how they will perform the services. Section 5, "Cost Proposal," is what they will charge us. Section 6, "Evaluation Process," is the scoring of the RFP.

Under administrative services, the offeror's cost proposal for required services must be on a flat dollar, per account fee. It will be specifically noted there are certain services offerors need to separately price because the Board is going to consider whether they will accept the RFP responders offer to provide those services, or whether they might be better off providing those services with in-house staff. For recordkeeping services, we ask for an all-inclusive per account fee for each plan, but then we have certain separately priced services. Under recordkeeping services there is only one separately priced service for written materials. Where there is the most possibility for providing services in-house is under administrative services.

There are 500 points for both the administrative and recordkeeping services. The RFP responders will be scored separately on each, even if they respond to both. There will be a pass/fail on the basic qualifications; no points assigned. Each category in the administrative services section was weighed for its relative importance against the other sections to determine how many points it was worth. Then each category within the subsections was assigned a point value. The committee's evaluation will cover 275 points. The cost proposal was assigned 25% of the total 500 points, which would be a possible 125 points. Those 125 points would be awarded on the ratio basis. *[Ratio Method – The proposal with the lowest cost receives the maximum points allowed. All other proposals receive a percentage of the points available on their cost relationship to the lowest.]*

The committee decided that if the Board presentation is given a total of 100 points, which is 20% of the total possible points, that would give the Board meaningful input at the end of the process. There would also be the threshold. After the cost proposal is evaluated, at that point the Board would see who has the highest number of points and take 85% of that RFP responder's score. Everybody who does not have at least 85% of that highest score is out. The 100 points the Board could award could give enough boost to anyone in that band of scores so that the Board presentations are significant. Another feature important to the issue of who presents to the Board is that the RFP is drafted to say no more than five may be requested to present. This does not compel the Board to do all five, but it does not limit it either, to a smaller number.

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Mr. McGee asked about the combined offer being eliminated, and what the Board would do if they receive a combined offer. There is a possibility that a combined cost could be lower than adding the cost of each category together. Ms. Samson explained that we want separate pricing because that gives a clearer picture without question. The Board could then go back to the “best and final” offer, which could come before or after the Board interview, and ask for combined pricing.

Section 1.4.7, “Offer in Effect for 120 Days” – The Board has 120 days to get the contract totally negotiated. Ms. Symons would like that extended to 180 days. If, by chance, the Board would get delayed with negotiations, this would allow them to get through the negotiation phase without the concern that something would change.

Ms. Nedrow moved that the Board approve that the RFP be issued substantially in the form presented, but changing 120 days to 180 days in section 1.4.7. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

First Quarter Board Meetings – Mr. Griffith moved to set the monthly Board meeting dates for the first quarter in calendar year 2007 for Thursday: January 11, February 8, and March 8, 2007.

FY 2007 Budget – First Quarter Status Report – Barb Quinn presented the first quarter budget status report as of September 30, 2006. Most expenses should be less than 25% expended. However, some fixed costs are paid up front and therefore, are 100% expended. The overall budget looks good at 15% expended. The DB expenses compared to the cap, through September 30, 2006, are projected year-to-date at \$242K under cap, and expected to be under the cap at fiscal year end.

Voluntary Compliance Program (VCP) 125 Plan – Ms. Symons addressed a letter Ice Miller wrote to Louis Leslie, with the IRS, regarding voluntary compliance filing by MPERA and the city of Bozeman. We are waiting for a letter from Mr. Leslie with the plan for coming into voluntary compliance. This will be the final resolution of our Voluntary Compliance Plan with respect to the 125 issue, specifically as it applies to the city of Bozeman and their one HCE employee.

Ms. Symons also noted a letter Ms. Minnehan sent to the Department of Labor and Industry regarding if the 125 plan health insurance premiums should be treated as compensation for FLSA overtime purposes. The city of Bozeman tax counsel has been arguing that should not be included for overtime purposes, and we believe it should be. By recommendation of Ice Miller, staff has asked for the Wage and Hours Standards Bureau to help make that determination.

The local government auditors for the State of Montana have worked with Ms. Quinn as far as including the 125 plan in their audit. They will be doing that as part of their audit when they go out to the local entities.

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MPERA Staffing – Ms. Minnehan updated the Board on the MPERA staffing. Currently, we have three vacant positions: administrative support, paralegal and auditor. We hope to fill the administrative support position by mid-November. The advertised paralegal position closed October 10th but no applications were received. The position of an auditor is a new position and the job profile needs to be created. By December 31, 2006, two positions will be vacated due to retirements: IT Manager (Kim Susag) and Refund Clerk (Doreen Charlton). The IT Manager is a key position, so we will try to fill it as soon as possible so there will be some overlap. The refund clerk position will be posted by November 20 with an offer by January 2, 2007.

Joint Issues Meeting – The Joint Issues Committee had a meeting September 28th at the Capitol. Mat Gouris, with Associated Press, was in attendance. There was discussion on the importance of messaging that retirement benefits are secure. David Ewer spoke in support of the Defined Benefit Retirement Plans. He is proposing providing significant funding of \$100M for the Teachers' Retirement System (TRS), and he has also mentioned raising their GABA to 2%. He also wants to propose decreasing the PERS GABA from 3% to 2% for new hires in all systems so everyone is on an even playing field. The Governor has made no decisions in any area. Tim Ryan brought up the unmet promise within the statutes to increase the TRS GABA eventually to 3%, once they meet a specific amount of amortizing for their unfunded liability. This would be done in increments of .10% until they reach 3%.

Mr. South spoke about increasing diversification and increasing managers for active management since two-thirds were passively managed. President Carey had asked Mr. Ewer if any money would be given to the PERS, to which he responded that PERS would get \$1M to pay off the DC loan. He felt it was easier to manage the PERS contribution rates because there is less impact on property taxes. Mr. Ewer does not propose helping the Sheriffs' Retirement System; they should be part of the solution because they were so adamantly for the detention officer bill.

The next Joint Issues Committee will be December 13th or 15th, 2006.

Board of Investments Update – John Paull gave an update on the Board of Investments (BOI).

Real Estate Investment Pool - In late September, seven new managers were hired for the Real Estate Investment Pool; three managers in the core category and 4 in the non-core value category. Six other non-core managers are currently being interviewed with BOI staff and R.V. Kuhns. The allocation size of the Real Estate Investment Pool will be 5% to 8% (\$350M to \$560M) of the total retirement system assets. It will take approximately 2 1/2 years to reach that allocation target.

Montana International Equity Pool – The new pool structure will be a more diversified and actively managed portfolio. \$930M of assets was allocated to the nine managers that were selected in September: three in the core category, two in the value category, three in the growth category, and one as small cap manager. The investments will be down from 70% passively managed to 15% passively managed.

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Montana Domestic Equity Pool – An RFP was issued on September 25, 2006 for Non-Large Cap Active Domestic Equity Managers in the Montana Domestic Equity Pool. The RFP is seeking one to five managers for this category. The RFP closed October 10th and BOI staff and R.V. Kuhns will conduct interviews. A contract will be awarded around December 15, 2006.

PERS Asset Liability Study - Per Clifford Sheets, the asset liability study for PERS will not be completed until the first part of January 2007.

Litigation – Ms. Symons gave a brief litigation update.

Teichrow Lawsuit – There is a tentative hearing date set on the Motion for December 7, 2006 at 11:00 a.m.

Joseph Baumgardner - Scott Miller reported that the Baumgardner trial was moved to November 13, 14 and 15, 2006. We received a decision in our effort to have their expert testimony precluded. The Judge found that her Scheduling Order was so vague as to not give notice of what was expected and so, essentially, let Mr. Baumgardner “off the hook.” Mr. Miller is working on editing the trial brief as far as our position on the case.

Future Board Meetings – Thursday: November 9 and December 14, 2006.

Operational Summary Report - The Executive Director presented an operational summary report for the month of August 2006, answering any questions Board members had.

The following portion of the meeting relates to matters of individual privacy. President Carey determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

CONTESTED CASES

Richard Golden - Informal Reconsideration – Richard Golden, accompanied by his attorney Charles Schuyler, appeared before the Board requesting they reconsider their July 17, 2006 decision that he is not entitled to an increase in the MPORS retirement system benefit currently received. Following a lengthy discussion, Mr. Klawon moved that the Board deny the renewed request to increase the retirement benefit paid to Richard Golden and other similarly situated retired police officers identified in the November 10, 2005 letter. Ms. Nedrow seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Thomas Stanger - Informal Consideration – A PERS retirement plan election was not filed within Mr. Stanger's statutory 12-month election window. Mr. Stanger is appealing the late election. After discussion, Mr. Klawon moved that the Board uphold Mr. Stanger's default to the Defined Benefit Retirement Plan, in accordance with statutes and administrative rules. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Mr. Smith voting nay.

MINUTES OF CLOSED MEETING

The Executive Director presented the minutes of the closed meeting of September 14, 2006. Mr. Klawon moved that the minutes of the previous closed meeting be approved. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Ms. Nedrow abstaining because she was not in attendance of the closed meeting.

RETIREMENT REPORT – Kim Flatow, Member Services Bureau Chief

Finalized Service/Disability Retirement Benefits, Monthly Survivorship/Death Benefits, VFCA Lump Sum Death Benefit Payments, and Funeral Benefits - Applications for service retirements/finalized disability benefits, applications for monthly survivorship-death benefits, VFCA lump sum death benefit payments, and applications for funeral benefits were presented to the Board. Mr. Griffith made a motion to approve the retirement benefits as presented. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Disability Claims – Ms. Linjatie presented the disability claims for Board consideration. Mr. Paull made a motion for approval of the disability claims as recommended for Carroll Benjamin, without annual review; and denying the claim for Troy Holt. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Mr. Paull made a motion for approval of the disability claims as recommended for Marvin Maetche, without annual review. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Ms. Nedrow abstaining because she knows Mr. Maetche.

Disability Reviews - Ms. Linjatie presented the disability reviews to the Board. After discussion of the reviews, Mr. Paull made a motion to approve the disability reviews as recommended: to continue disability retirement and discontinue annual review for Branden Stephens; and to cancel the disability retirement for Lori Williams-Stetson. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

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Carol Hoagland - Informal Consideration – Ms. Linjatie advised the Board that Carol Hoagland contacted her indicating she feels she can work. Mr. Griffith made a motion to continue the denial of a disability retirement for Carol Hoagland based on the fact her condition is not reported to be permanent or of uncertain duration. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Samuel (Cal) Wiley - Informal Consideration – Mr. Wiley requested the Board to review and overturn the September 6, 2006 staff determination that he can not now elect to participate in the Guaranteed Annual Benefit Adjustment (GABA). Following discussion, Mr. Klawon moved that the Board deny Mr. Wiley's request to elect GABA at this time. Ms. Nedrow seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Mr. Griffith abstaining.

Kelly Kuehn - Informal Reconsideration – Mr. Kuehn is appealing the cancellation of his disability benefits and the repayment request. After reconsideration of the case, Mr. Klawon moved that the Board reinstate the disability benefit for Mr. Kuehn. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Ms. Nedrow voting nay.

The closed meeting was recessed and the open meeting was reconvened for further discussion (Agenda Item O).

The next SAVA Committee meeting is November 28 and 29, 2006.

Mr. Smith stated he had a discussion with the actuary regarding extending the amortization period for the DC plan. Mr. Smith indicated that the Board had extended the DC plan PCR amortization period to 30 years for the special session legislation. He felt the reasons he brought it to the Board back then are still relevant today. Mr. Smith was hoping to ask the Board for a consensus to continue with that 30-year amortization window for the DC plan in the legislation the Board will be proposing this session. He stated Mr. Johnson's position was that there was no harm to it and it would give the plan a cushion in the event the future changes. Mr. Smith stated he was requesting the Board give Ms. Minnehan direction for when she goes to finalize those bills at the September 28-29 meeting with the SAVA committee, to provide a 30-year amortization period for the PCR.

Ms. Minnehan had discussion with Mr. Johnson and this is the best expert opinion at this one date in time projecting forward. In the valuation, the acceptable range for the amortization of the PCR is up to 18.75 years. The actual result as of June 30th was 17.11 years. Ms. Minnehan would rather not get into the discussion of the PCR and the amortization period if it is not necessary. Mr. Smith wants the amortization period increased as a cushion we would never need, to insure the PCR is not changed. If the Board's decision is to adjust the PCR amortization period, we would change the 10 years to 17.25 years, which makes the initial amortization period 30 years to allow for a consistent PCR through time.

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Ms. Minnehan added that as the original bill was designed, we went with increasing the employer contributions in the consecutive years. After the Joint Issues Committee meeting, the Budget Office has requested we go every biennium. Ms. Minnehan spoke with Mr. Johnson and Mr. O'Connor about phasing it in over the bienniums instead of one biennium. Mr. Johnson said he could figure the numbers for us. It would make it more palatable to the legislature.

President Carey recommended tabling this issue and allowing staff to review it, and the Board can discuss it at the November meeting.

The meeting was again closed to continue with the Legal Track Report Update.

Contested Case Report Update - The Board Attorney presented a contested matter status report update.

EXECUTIVE SESSION

The meeting went into executive session to discuss performance appraisals of the Executive Director and Legal Counsel.

ADJOURNMENT

There being no further business to come before the Board at this date, the meeting was adjourned. The next meeting is tentatively scheduled for November 9, 2006, at 8:30 a.m. in Helena.